FACTSHEET: Debt Management Policy

Background

An expanded external audit by KPMG recommended that the City of El Paso consider and adopt various financial policies. Advantages of formal policies were:

- Promote stability and continuity
- Improve efficiency and quality control
- Bond rating agencies look favorably on organizations with formal policies
- Education tool for decision makers and new employees
- Promote long-term and strategic thinking

One of those financial policies recommended was a debt management policy.

The Government Finance Officers Association (GFOA) lists a debt management policy as a "recommended practice." GFOA specifically "recommends that all state and local governments adopt comprehensive written debt management policies, and that governments review them at least annually and revise them as necessary." It also identifies certain criteria that a debt management policy should contain.

Furthermore, a debt management policy is one of the "Six Critical Components of Strong Municipal Management" as noted by Moody's Investor Services, and one of the "best practices an issuer can employ to strengthen its credit position" as noted by Fitch Investor Services.

Q&A

Why should the City of El Paso adopt a debt management policy?

The adoption of a debt management policy provides 1) bondholders with reassurances that debt burdens and operational debt costs will be kept at manageable levels, and there is a plan in place to meet capital needs; 2) provides staff with a framework to work from and assures Council that any proposal brought forward by staff meets the policy guidelines set out by Council; 3) assures continuity in financial operations whether there is a change in council or management; 4) generally debt policies are looked upon favorably by rating agencies as a strength and good management practice.

Why should the City's debt management important to the Community?

Debt management is important to the community because it tells the public what a city will or will not do with respect to debt; how much debt it will issue, what types of debt; and when it is appropriate to issue that debt.

Why do we have different kinds of debt?

We have different types of needs that can be funded in different ways. For example, infrastructure needs of the community need to be addressed more immediately than a quality of life project. We need to be able to have a debt instrument that avails the City the opportunity to fund these types of needs. Revenue bonds also give the City another opportunity to fund certain projects such as solid waste services or the City's international airport, where there are dedicated revenue sources separate from the general fund tax base.

Does the policy impose a debt limit on the amount of debt that the City can issue?

Yes, the policy sets a ceiling of 25 cents per $100 valuation for the debt service tax rate.

What are the consequences of not having a debt management policy?

Although a City may run without a debt management policy, it is a good management tool to have in place per all of the above. The City is one of the top 50 largest cities in the United States and the only Texas city on that list that does NOT have a policy in place. Clearly, it is a good practice to have one.

Adoption

With these recommendations in mind, the City Manager and staff brought forward a draft of the Debt Management Policy as requested by City Council at its regularly scheduled meeting of November 1, 2005. The issue was remanded to a Legislative Review Committee of the Council for more detailed review.

Given the significance of the issue, the LRC Chairman of the Fiscal Affairs/Internal Audit LRC requested that the issue be brought before the full council at a special council meeting. As such, the Mayor called for a special city council meeting on November 28, 2005.

City Council adopted the Debt Management Policy at a Special City Council Meeting on November 28, 2005, by a vote of 6-2.